

Going on the defensive minimizes liability exposure

The president and owner of a New Jersey construction company was personally sued in Maryland recently for amounts owed to an equipment rental company pursuant to rental agreements between the two companies. While this small business owner was ultimately found not to be personally liable for the debt, no doubt he fought a costly legal battle. The owner endured nearly four years of litigation, including a trial and two appeals, before succeeding. All of it could have been easily avoided.

A corporation is a legal fiction; it is a creation of the law and is regarded as a separate legal entity. One of the most important benefits of doing business as a corporation is that the corporation's officers, directors, members and stockholders are insulated from the debts of the corporation. For example, when a small business owner signs a contract for his company, it is a corporate act, not a personal act, and the owner is not personally liable for the debt - at least not usually.

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